Northern and Central Gas Corporation Limited

ANNUAL MEETING, APRIL 20, 1972

Toronto, Ontario

Address to the shareholders

by Edmund C. Bovey

President and Chief Executive Officer

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In these days of dialogue, discussion involvement and participatory democracy, it seems to me more important then ever that a good system of communications is maintained between the management and the shareholders of a company. While quarterly and annual reports provide a most effective method of apprising shareholders of the progress of the company, they do not allow for dialogue unless the shareholder makes the effort. The annual meeting, on the other hand, gives both shareholders and management the opportunity to relate to each other on a face to face basis. It is for this reason that we encourage shareholders to attend these meetings and why we are pleased when we see a large attendance such as we have here this morning. Welcome to this the 19th annual meeting of Northern and Central Gas Corporation.

Today it seems that more discussion is carried on in public regarding questions for which answers have not as yet been crystalized. Government leaders, for example, will discuss the various options available for the solution of social problems. Business leaders discuss with employees, customers and shareholders, their plans, objectives and problems in clearer terms and in more detail. Management can benefit from an informed and interested public which will articulate and indicate its ideas of priorities and objectives.

In this vein I would like to relate to you a few of the considerations that Northern and Central management are constantly reviewing.

Priorities and Objectives

The assessment of the best use of capital. We live with the constant prospect of a cheapening dollar and its possible implications on our standard of living. Technological breakthroughs can introduce cost savings and reverse the trend. On the other hand, the continual bargaining by labor for a greater percentage of the gross income, unless accompanied by greater productivity, works against the consumer and further dilutes the purchasing power of the wage earner. As managers, we think about this cheapening dollar and consider whether or not it is prudent to invest it now in plant or equipment which in a few years will undoubtedly be much more expensive. The shareholder, of course, has an interest in dividends and management must balance capital investment now for future growth against a current year's distribution of earnings.

Another consideration is diversification and investment in related industries. To date, we have stayed within the energy field developing a corporate organization with a high degree of knowledge and expertise in the industry. At the

same time it is important to be alert to the possibility of attractive investment opportunities in areas unrelated to present activity.

Yet another issue to which your management is necessarily attentive is that of quality of life. To achieve or even maintain this quality requires a great deal of environmental planning and development, much of which is yet to be done. We all may have to accept some adjustment in the future, to our standard of living as we now know it, in order to preserve and improve our environment. So long as we maintain a mature attitude in determining our national priorities then I believe a great deal can be achieved. Consider, for example, the possibilities for improvement by the development of more controlled environment living and working space. Architects and town planners are being encouraged to structure the nature of cities and communities so that we can walk and live in sheltered environments. The use of energy is playing an important role in this development.

Then there are the possibilities for the rationalization of our energy resources on a continental basis. I see this as a door of opportunity for an improved relationship with the United States, but we must indicate clearly that we recognize the advantage we have in these resources and the responsibility we must accept for their useful application. International discussions should not be approached defensively or jealously nor should we in a sense throw our resources on the bargaining table and say "what are we offered". Developing the collective well-being of North Americans should, in the final analysis, be the prime objective of both Canadians and Americans. Well-being need not be looked at first on economic grounds, but in terms of integrity and independence for Canadians.

Another activity that is given continuous attention is planning. As part of Canada's national economic structure, the company must act in concert with developing economic trends. Also, changes in technology must be studied and evaluated in relation to present operational standards, marketing procedures and product mix.

History of Growth

There are many other considerations that have to be taken into account but these that I have mentioned will provide shareholders with an idea of the many options and variables that must be reviewed.

The year 1971 was the best year to date in the company's history. A comparison to 1960, the first full year that Northern was operating in northern and northwestern Ontario, provides a good measure of the growth rate achieved. In 1960, total revenues were $13.4 million, profit $838,000, total assets $38 million, employees numbered 200 and customers 22,000. At the end of last year, 1971, just eleven years later, total revenues were $193 million,

profit $15.9 million, total assets $607 million, the number of employees 3,100 and utility customers 400,000. During the 11-year period, revenues increased 14 times, profits 18 times and assets 15 times. Earnings per share increased 3½ times, from 29¢ in 1960 to 99¢ in 1971. Dividends increased almost 5 times from 12.5¢ per common share in 1962 to 60¢ in 1971.

From a relatively small beginning as a regional utility, Northern and Central is now national in scope, is listed in the top 100 Canadian corporations, being 19th in assets and 37th in profits.

Today, over 35% of the corporation's consolidated income comes from non-utility operations. And this figure should rise significantly as coal mining operations come into full production and oil and gas production increases.

The company was early in recognizing that proven energy reserves will steadily increase in value over the years and represent quality investment opportunities. Thus, today, as noted in the annual report, the company has major proven reserves of oil, natural gas and coal. It is our intention to keep as a high priority management objective the addition of further reserves of gas, oil, coal and other forms of energy to the company's inventory. The value of such reserves should appreciate considerably in the future and be reflected in the returns to Northern and Central shareholders.

The exposure that the Northern and Central shareholder has in areas of high petroleum discovery potential is extensive. For example, shareholders through CIGOL have interests in gas and oil exploration activities offshore Malta, Tunisia, the North Sea of the U.K., offshore east coast of Canada and in vast land holdings in the Arctic Islands and the Mackenzie Delta.

While we still have much room for development in Canada, and will not succumb to "the distant fields look greener" syndrome, we nevertheless are not overlooking the potential of developing internationally and will likely move increasingly in this direction in the future.

Return on Investment

I raise the question uppermost in management's mind—returns to the shareholder. We believe Northern and Central to be performing well in this regard.

The firm and predictable earnings base in the utility section, combined with expertise of those responsible for acquisitions, exploration, discoveries and development, allow us to pay a relatively high dividend while at the same time providing the shareholder with an increasingly broad participation in areas of high discovery potential.

Now to some of the specific developments in 1971 which should lead to the continued strengthening of the company:

- Through acquisition, exploration, discovery and development, company energy reserves at year-end were: oil, 70,000,000 barrels; natural gas, 604 BCF; coal, 170 M tons.

- The purchase of an 82% interest in Coleman Colleries has put the company in a favorable position in the coking coal business in Canada. Coleman has vast reserves of good quality coal, proven and yet to be proven. It provides an excellent base from which to participate in the rapidly increasing world demand for coking coal as well as the inevitable increasing use of coal as a source of energy in North America.

- The decision to proceed with plans to extend natural gas service east of Montreal was made with confidence. We have been encouraged by policy statements of the Quebec National Assembly and the decision of Sidbec to proceed with a large steel benefication plant at Contrecour. The growth potential of the Province of Quebec cannot be underestimated and your company is determined both to assist and to share in its growth.

- The extension of gas service from Metropolitan Winnipeg to the communities of Beausejour Garson, Tyndall and East Selkirk, represents an important policy decision. If rural gasification is to be achieved in Manitoba, Northern and Central, through Greater Winnipeg Gas Company, wants to participate and assist wherever possible in this development.

- Improved management control results from the establishment of a corporate computer model from which answers can be obtained quickly as to the possible effects of alternative management decisions.

Energy Resources

I would now like to discuss briefly the energy situation in Canada and in North America. I have referred earlier to co-operation with our U.S. neighbour. The United States is using more natural gas each year than is being found. According to the American Gas Association, gas used in 1971 was 22 TCF, while new gas discovered was 10 TCF. The U.S. has about 13 years of gas reserves left, at present rates of consumption, totalling 279 TCF. The Canadian Petroleum Association reported recently that Canada's natural gas reserves are nearly 56 TCF, up 2 TCF from last year. Canada is using its reserves at the rate of 2 TCF annually, of which 52% is used domestically and 48% exported. Canada's present proven reserves are sufficient to last 28 years. Not included in these figures are gas reserves discovered in the Arctic Islands.

Thus, at present, Canada's contribution to help alleviate the American gas shortage can only be minimal but it is evident that, with proper management, we have enough gas available for domestic needs for many years.

It is important for shareholders and customers alike to realize that there is no natural gas shortage in Canada.

There is another point to consider—price.

The cost of producing natural gas in the western sedimentary basin has increased because wells must be drilled deeper and in more remote areas. Also, much of the new gas found has a high sulphur content, which is costly to remove and the market for sulphur is depressed.

Shareholders realize, I am sure, that they have an interest, not just in the distribution of natural gas but also in production. Thus they benefit when the wellhead price of natural gas increases.

Still on the subject of price, gas found in the Arctic or Alaska or the Mackenzie Delta will unavoidably cost more. The long distance to market makes this obvious. In considering price to utilities and to the consumer, it is absolutely necessary to allow the producer a fair rate of return for his gas, recognizing thereby the increased costs in finding and producing the product.

Inescapably, our customers will pay more for gas in the future. However, in relation to the increased cost of other forms of energy and other commodities, these anticipated increases will, I believe, prove reasonable, particularly when the premium qualities of natural gas and dependability of its delivery is taken into account.

Prospects for 1972

For the company, 1972 should be another year of growth, but whether or not the percentage improvement will be equal to or better than the past year is difficult to say at this time. There are, at present, a number of outstanding matters that should be resolved during the year and each of them can have a direct effect on earnings. Such items include, Gas Metro's application for a rate hearing now in progress, the possibility of higher prices for oil and gas in Western Canada, negotiations regarding increased coal prices scheduled for later this year and the establishment of new rates for TransCanada Pipelines by the National Energy Board in Canada. In regard to this matter, let me say again as I have in the past, I am confident that the company's utilities will be able to reflect any increases in their rates without undue delay and with a minimum effect on earnings.

Preliminary first quarter results indicate that consolidated net income is in line with our budgeted forecast for the period, but below the first quarter a year ago. Revenues were $69,200,000 compared to $62,237,000 in the first quarter of 1971 and consolidated net income was $10,671,000 compared to $11,622,000.

Again, I would like to express the appreciation of the directors to the employees for their excellent performance in 1971 and to the shareholders for their continued support and interest in the affairs of the company.

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